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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 001712

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TAGS: [ENRG](#) [EPET](#) [PREL](#) [CH](#) [JA](#)

SUBJECT: JAPAN-CHINA AGREE ON EAST CHINA SEA GAS FIELDS

REF: TOKYO 1655

Classified By: Ambassador J. Thomas Schieffer. Reasons 1.4 b/d

¶1. (C) Summary. While not relinquishing long-standing territorial claims, Japan and China agreed to joint development of the Shirakaba and Asunara gas fields in the disputed East China Sea. Japanese officials are hailing the agreement as a "victory," perhaps one that will change the tenor of regional and bilateral relations in North East Asia. Nonetheless, a Ministry of Economy, Trade and Investment (METI) official close to the negotiations admitted agreement at this point is just a "first step" and many more tough negotiations lie ahead. Japanese government officials and industry experts concur the agreement has more political than economic significance and it remains to be seen whether Japan and China can maintain their pragmatic approach. End Summary.

¶2. (C) Japan and China announced agreement to develop jointly of two natural gas fields in the disputed areas of the East China Sea June 19. While not relinquishing their respective territorial claims, the two sides agreed Japan can have equity participation in the Shirakaba (Chunxiao) field currently under development by the China National Offshore Oil Company (CNOOC) and the China Petroleum and Chemical Corporation (CPCC). The terms of Japanese participation have yet to be determined. Ministry of Economy, Trade and Industry (METI) Petroleum and Natural Gas Division Director Shin Hosaka told econoff June 18 Teiseki Drilling Company Ltd. (Teiseki), which had previously been awarded drilling rights in the Shirakaba field, would be given first right of refusal in making an offer to the Chinese. Hosaka did not anticipate the GOJ would invest in the field. Teiseki public relations manager Kazuya Honda told econoff the company welcomed the news of the agreement, but said it is too soon to tell what course of action the company would take.

¶3. (C) In addition to Shirakaba, Japan and China agreed to jointly explore and develop the Asunara (Longjing) gas field. In principle, rights and profits will be split 50-50 but

details of the arrangement have yet to be determined. METI's Hosaka said Teiseki and Nippon Oil Exploration Limited (ENEOS) have had applications on file with the ministry since 1969 to explore the Asunara field and thus would be given first priority to do so.

14. (C) Although Foreign Minister Masahiko Koumura characterized the agreement as a "victory" to the press, Hosaka was more reticent, saying it was just the "first step" in what will likely be "very difficult" negotiations on more precise terms and conditions for developing the two fields. Nonetheless, from a political standpoint, he acknowledged the deal is significant in showcasing the warming relationship between the two countries.

15. (C) The East China Sea agreement resolves one of the most contentious issues between Japan and China and shows two countries can solve their problems in a peaceful, constructive manner, Kensuke Kanekiyo, Managing Director for Japan's Institute of Energy Economics told emboff June 20. Its resolution will "drastically change" the tenor of bilateral and multilateral relations in North East Asia, he maintained. Kanekiyo predicted settling the demarcation issue, however, will take many years and could still cause tensions to flare between the two countries.

16. (SBU) Kanekiyo explained that when the gas fields were first discovered in 1995, the low cost of oil and the relatively small deposits made the fields economically uninteresting. (Note: Total East China Sea deposits are

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estimated between 180 million to 3.26 billion barrels of oil equivalent. End Note). Today's sky-rocketing oil prices have changed that outlook. Nevertheless, the fields' proximity to the Chinese mainland suggest Shanghai as the best potential market for the gas, Kanekiyo said, although developers would still need to build a 300 km pipeline.

17. (C) Signing a treaty to formalize the agreement will depend on China's domestic political situation, Ministry of Foreign Affairs (MOFA) China and Mongolia Division Principal Deputy Director Kazuya Endo told poloff June 20. Recent anger over the East China Sea agreement coupled with the collision between a Japanese coast guard frigate and a Taiwanese fishing vessel (reftel) make a signing at this time untenable, he said. Endo hinted the Beijing Olympics in August would be a good time for Japan and China to meet again to hold "quiet discussions" off the public radar as the public will be focused on the Games.

18. (C) Comment. While publicly hailing this step as a boon to Japan's energy security, Japanese officials and industry experts acknowledge the agreement with China has much more political and symbolic value than economic significance. The lack of detail in the agreement, including the setting aside the question of boundary demarcation between Japan and China, supports Hosaka's contention that many more rounds of tough negotiations lie ahead. End Comment.

SCHIEFFER